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New data on local government retiree healthcare benefits portend financial danger ahead

~ LeRoy Collins Institute's report reveals local governments face billions in unfunded liabilities~

TALLAHASSEE, Fla. – The LeRoy Collins Institute (LCI) today released its latest report in the *Tough Choices* series, *Beyond Pensions: Florida Local Governments and Retiree Health Benefits*. This report analyzes the cost and sustainability of a widely ignored non-pension retirement benefit – retiree healthcare subsidies – for local governments in Florida. And the findings indicate significant problems for many Florida cities and counties; the report concludes that Florida local governments have accumulated some $8.4 billion in unfunded retirement health benefit liabilities. Below are questions and answers concerning these liabilities and their sources:

Q: What are retiree health benefits?

- Retiree health benefits are part of Other Post-Employment Benefits (OPEB) provided to local government employees. Beyond providing subsidies for health care insurance premiums, OPEBs can also include subsidies for vision and dental care, life insurance and other non-pension benefits.
- Retiree health benefits are the most costly of these OPEBs and refer specifically to the promise of an employer to subsidize some or all of a retiree's health care insurance costs.

Q: Why should Floridians be concerned about the cost of retiree health benefits?

- Few local governments have set aside funds to cover the health insurance benefits they promise to employees. Instead, most governments opt to pass the cost of retiree health benefits that have been earned onto future taxpayers – this delay will likely only increase how much those benefits will eventually cost taxpayers.
- Over the next twenty years the number of workers who will begin to draw retirement benefits is expected to increase significantly as the Baby Boom generation retires.
- It is widely expected that healthcare costs and insurance premiums will require an increasingly larger portion of household incomes in the coming years.

Q: What are the key findings in this report?

- Most of the underfunded liability for retiree health benefits—more than \$6.5 billion – comes from locally-administered plans.
- An additional \$1.9 billion is from the cities' and counties' share of the Florida Retirement System (FRS) health insurance subsidies' unfunded liability. Governments that use the "pay-as-you-go" approach to funding these obligations are placing the financial burden on future taxpayers and employees.
- More accurate and consistent reporting by local governments is needed to capture the full scope of retiree health benefits that have been promised and how those costs are being funded.

Q: What are the types of retiree health benefits that exist?

- Implicit benefits: All local governments in Florida are required to provide their employees with implicit benefits via Florida Statutes (112.0801). Governments provide implicit benefits by giving retirees an option to purchase the health insurance coverage that is available to their current employees at the same premium rates that apply to the current employees.
- Explicit benefits: Explicit benefits are not required by Florida Statute and usually take the form of monthly health insurance subsidies that are equal to the number of years an employee works multiplied by a specific dollar amount. For example, a worker who retires after 20 years or service with a \$5 subsidy for each year of service will receive a monthly health insurance premium subsidy of \$100 (20 years x \$5/year = \$100).

Q: Where did we get this information?

- Our report uses data collected from the annual financial reports of the 100 largest cities in Florida and all Florida counties. The financial reports from fiscal years 2008 to 2011 were accessed from the Florida Auditor General website and data on local government OPEB plans were gathered from each report. Two researchers separately collected data from each of the financial reports to minimize coding errors.

Q: Who funds this research?

- As part of our *Tough Choices* research series, this report is supported by the Jessie Ball duPont Fund.

For more than 20 years, LCI has studied and promoted creative solutions to key private and public issues. Beginning in 2005, the Institute published several reports in a series called, *Tough Choices: Shaping Florida's Future.* These publications provided an in-depth analysis of Florida tax and spending policy and were updated in 2014. The research concluded that Florida's pattern of low spending and low taxes conflicted with the growing demands of the state's residents, predicting trouble may be ahead. This is the seventh report on local governmental retirement funding issued by the LeRoy Collins Institute since February 2011.
To access a complete version of *Beyond Pensions: Florida Local Government and Retiree Health Benefits,* please visit: http://fla.st/1B8tBei.

About the LeRoy Collins Institute*: Established in 1988, the LeRoy Collins Institute is a nonpartisan, statewide policy organization which studies and promotes creative solutions to key private and public issues facing the people of Florida and the nation. The Institute, located in Tallahassee at Florida State University, is affiliated and works in collaboration with the State University System of Florida. Named in honor of former Florida Governor LeRoy Collins, the Institute is governed by a distinguished board of directors, chaired by Lester Abberger. Other board members include executives, local elected officials, and other professionals from throughout the state.*

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